Moody's Investors Service

Global Credit Research
New Issue
13 JUN 2008

New Issue: Idaho (State of)

MOODY'S ASSIGNS MIG-1 RATING TO STATE OF IDAHO TAX ANTICIPATION NOTES

ISSUER RATING OF Aa2 AFFIRMED; OUTLOOK IS STABLE

State
ID

Moody's Rating

ISSUE		RATING
Tax Anticipation Notes, Series 2008		MIG 1
Sale Amount	$600,000,000	
Expected Sale Date	06/18/08	
Rating Description	Tax Anticipation Notes	

Opinion

NEW YORK, Jun 13, 2008 -- Moody's Investors Service has assigned a MIG 1 rating to the State of Idaho's Tax Anticipation Notes Series 2008 and affirmed Idaho's issuer rating of Aa2 with a stable outlook. The tax anticipation notes are secured by tax revenues to be received by the state's general fund during the fourth quarter of fiscal 2009 and the state's full faith and credit general obligation pledge. In addition, the state treasurer has covenanted to access alternate cash resources in other state funds if necessary to repay the notes. The best-quality short-term note rating reflects a history of conservative cashflow projections for the general fund, very substantial alternate resources available, and the strong underlying credit quality of the state of Idaho.

The Aa2 issuer rating on the state reflects a solid financial position, low but rising debt levels, relatively diverse economy, and low wealth levels.

The state plans a sale of $600 million of notes on or about June 18, 2008. Proceeds will be used to fund temporary cash flow imbalances in the state's general fund during fiscal 2009, pending expected cash surpluses later in the fiscal year. The state has regularly and successfully issued short-term notes for cashflow purposes since 1986.

GENERAL FUND CASH BALANCE PROJECTED AT $54 MILLION AFTER JUNE 2009 NOTE REPAYMENT

The notes are payable from anticipated and pledged fiscal 2009 fourth-quarter general fund receipts. Most receipts are derived from individual income, sales tax collections, and corporate income. A larger portion of receipts accrue in the second half of the fiscal year, while disbursements, primarily for schools, are concentrated in the first half. Without proceeds from the current notes, the state's cashflow projections show deficits in August through May. The greatest month-end deficit is projected to occur in November and is expected to be $759 million.

The state's cash flow projections anticipate fourth-quarter revenues of $999 million, providing just 1.6 times coverage of the note principal. The 2009 fourth quarter revenue projection show a 1.6% decrease over expected fourth quarter revenues in the current year, reflecting better than expected growth in FY 2008 actual revenues over the not-yet adjusted FY 2009 cashflow projections. The state continues its practice of conservative projections. The full-year FY 2009 projection shows essentially flat revenue growth and a June 2009 ending balance, after note repayment, of $54 million (about 2% of revenues), a minimal cushion to absorb potential revenue and expenditure forecast risks. Based on the fiscal 2009 cashflows, expenditures increase by about 2% and exceed revenues by $137 million, with the difference covered by a strong opening balance ($191 million).

The state's forecasts of receipts and ending balances have historically been conservative, with actual balances significantly exceeding projections. FY 2002, however, was an exception. Reflecting the impact of the September 11th events and the ongoing general economic downturn on state finances, the fiscal year 2002 actual ending balance ($20 million) was less than the initial estimate ($64 million). Fiscal years 2003 through 2006 ended with cash balances that exceeded initial projections and the trend appears to be continuing. The initial FY 2008 ending balance of $104 million has been revised upward to $191 million. In instances of revenue underperformance, however, the state has demonstrated an ability to maintain tight control of expenditures during the year through the use of "holdbacks" of agency spending authority when necessary to maintain budget balance.

SUBSTANTIAL INTERNAL BORROWABLE RESOURCES ARE A KEY CREDIT FACTOR

In the event of a deficiency on or before the note payment date (June 30, 2009), the state treasurer covenants to cause any legally available moneys to be deposited into the note payment account to meet principal and interest on the notes. To this end, substantial moneys are available via interfund borrowing from a variety of funds maintained by the state treasurer - the largest of which is the Local Government Investment Pool. Such internal borrowable resources are projected to total over $2 billion in June 2009, providing substantial alternate liquidity if needed. Available resources have consistently exceeded $1 billion over the past five years.

The Local Government Investment Pool ($1.2 billion) accounts for about 50% of the total available funds. Various other accounts are also available, including the permanent building fund, state highway and insurance funds, and the state's budget reserve. Clear statutory authority exists to borrow from these accounts over the year-end if necessary, a key factor in the MIG 1 note rating. In December of 2007 the state undertook an internal borrowing of $49.4 million which was repaid in March of 2008.

HISTORY OF EARLY FUNDING OF NOTE PAYMENT ACCOUNT

The state covenants that all income collected during the fourth quarter shall be deposited into a note payment account until the balance in the account is equal to the amount required for note interest and principal repayment. Projections indicate that the account will be fully funded by June 2009, although the State historically fully funds the account by April.

Funds deposited in the note payment account are irrevocably appropriated and set aside solely for note payment. They are held by an escrow agent (US Bank) and are invested at the direction of the Treasurer. Funds may be invested only in instruments specified by Sections 67-1210 of the Idaho code. While the range of investments permitted by the code was recently expanded to include single A-rated corporate bonds, the Treasurer's historical practice of emphasizing the highest liquidity and safety of principal in note payment account investments is expected to be maintained.

FISCAL YEAR 2008 REVENUES REVISED DOWNWARD

The state revised FY 2008 revenues down midway through the fiscal year to reflect the slowing economy. The original forecast for 2008 assumed revenue growth of 3.7%. At the start of the 2008 legislative session the current year revenues were reviewed and revised slightly down to 3.5% growth, due to minor weaknesses in sales and corporate income tax. Upon further analysis the state did another revision in February 2008, taking revenues down to 1.8% growth, reflecting further weakness of the sales and corporate income taxes. Revenues are currently on target based on the February revenue revision. The state will continue to actively monitor revenue performance and expects to complete another forecast in August.

FISCAL YEAR 2009 GENERAL FUND BUDGET

The adopted FY 2009 general fund budget ($3 billion) represents a growth in expenditures of 5% over FY 2008, with much of the growth attributable to an increase in education spending (5%). The budget assumes modest revenue growth of 2.8%, which reflects the continuing impact of the economic slowdown particularly in the construction and housing sectors. Corporate income tax is projected to increase 9.3%, following decline of 10.9% in FY 2008 and 2% in FY 2007. Sales tax is projected to grow 4.9%; while the main component of general fund revenues, individual income tax is projecting a slight increase of 0.4%. The general fund is projecting an ending budgetary balance of $51.7 million.

State reserve levels are healthy totaling about $323 million, 11% of revenues. This includes $140 million currently in the budget stabilization fund (which brings the fund to the statutory cap of 5% of revenues), $66 million currently in the economic recovery fund and $116 million in the public education stabilization fund.

STRONG DEMOGRAPHIC TRENDS BENEFIT ECONOMY

Idaho's economy has diversified in recent years, benefiting from strong population growth. Population growth has consistently outpaced the nation; Idaho experienced 2.4% growth vs. 0.9% growth for the U.S. in 2007. As a result, the state has seen particular growth in the technology sector, including both manufacturing and tech related services. Despite diversification, an above average dependence on the natural resource sector remains, particularly outside of the Boise area.

State employment growth since 2000 has been above U.S. levels, with similar yearly directional trends, but without the negative growth that the U.S. experienced in 2002 and 2003. Annual employment growth through

December 2007 of 2.6% exceeded the national pace of 1.6%. State unemployment rates are currently lower than national levels, 3.6% and 5.5% respectively.

DEBT BURDEN IS LOW

Idaho currently has no general obligation debt outstanding. The state does have appropriation debt issued by the Idaho State Building Authority in the amount of $302.3 million outstanding in addition to GARVEE bonds issued by the Idaho Housing and Finance Association ($367.3 million currently outstanding).

The state's conservative debt policies have led to modest state debt levels, falling well below national medians. The state's net tax supported debt per capita is $354 compared to $889 nationally, based on Moody's 2008 State Debt Medians. Net tax supported debt as a percentage of personal income is 1.2% compared to the 2.6% U.S. median

Analysts

Kimberly Lyons
Analyst
Public Finance Group
Moody's Investors Service

Maria Coritsidis
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653
